



# MONTANA LEGISLATIVE BRANCHB

# **Legislative Fiscal Division**

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Director AMY CARLSON

DATE:

April 16, 2013

TO:

Sen. Jeff Essmann, Senate President Rep. Mark Blasdel, House Speaker

Sen. Bruce Tutvedt, Chair, Senate Tax Committee Rep. Mike Miller, Chair, House Tax Committee Sen. Art Wittich, Senate Majority Leader Rep. Gordon Vance, House Majority Leader

Sen. Jon Sesso, Senate Minority Leader Rep. Chuck Hunter, House Minority Leader

FROM:

Amy Carlson, Legislative Fiscal Analyst Stephanie Morrison, Revenue Analyst

Nick Brown, Revenue Analyst

RE:

General Fund Revenue Update #3

### **PURPOSE OF REPORT**

This is the third of the monthly revenue updates throughout the session designed to brief the legislature on recent economic trends and the corresponding outlook for the 2015 biennium General Fund revenue estimate. This update is based on actual revenue collections received through the end of March 2013, and the April update of national and Montana forecasts from IHS Global Insight (IHS).

#### **SUMMARY**

General fund revenue collections continue to show strong growth over FY 2012 amounts, and are currently above the overall growth contained in SJ 2. Underlying economic indicators have continued to improve since the IHS January forecasts were used to develop the estimate contained in SJ 2. Much of the higher-than-anticipated growth in year-to-date collections may be a result of revenue shifting due to the uncertainty in future federal tax rates at the end of CY 2012.

If the IHS April forecasts and an adjustment for revenue shifting into calendar year 2012 are used in the LFD revenue models, total general fund revenue estimates increase by \$50.2 million over the three-year forecast period. The table below shows the Legislature's official total general fund estimate as contained in SJ 2 and the model output based on the February, March, and April revised assumptions. The table also compares the year-to-date growth in collections with the growth rate contained in SJ 2 and the growth rate based on the April update.

	SJ 2	Feb 25	Mar 15	Apr 15		YTD	SJ 2	Apr 15
	Official	Model	Model	Model	\$	Revenue	Estimated	Model
FY	Estimates	Output	Output	Output	Difference	Growth	Growth	Growth
2012	\$1,871.0	\$1,871.0	\$1,871.0	\$1,871.0				
2013	1,995.0	2,021.5	2,017.8	2,014.4	\$19.4	8.5%	6.6%	7.7%
2014	2,056.3	2,074.9	2,066.5	2,068.4	12.2		3.1%	2.7%
2015	2,137.4	2,157.7	2,153.2	2,156.1	18.7		3.9%	4.2%
3-YR	\$6,188.6	\$6,254.2	\$6,237.5	\$6,238.8	\$50.2			
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The April revised national forecast from IHS is based on the following key assumptions:

- The housing recovery continues to gather momentum with household formation reviving, and the recovery in demand is spreading from rental units to owner-occupied units
- The sequester will continue through the end of the third quarter, rather than through the end of the second, as assumed last month
- Continued quantitative easing by the Federal Reserve into 2014, with the federal funds rate near zero until late 2015
- Nearly unchanged oil price assumption

The change in the FY 2013 oil price is the primary driver behind the differences between this revenue update and the February revenue update. A comparison of the forecast price from January (used in SJ2), February, March, and April is shown in the table below.

	West Texas Intermediate Oil Price										
CY	January February March April Apr-Jan										
2013	\$89.64	\$94.88	\$90.70	\$90.84	\$1.20						
2014	86.26	89.54	88.14	88.20	1.94						
2015	81.60	84.79	84.79	84.79	3.19						

The summary of changes in the April update relative to SJ 2 by income source is shown in the table below. The improvement in the overall estimate is being driven primarily by the increase in individual income tax, with the higher corporate license tax estimate being offset by the lower oil & natural gas production tax estimate.

Summary of Ap	oril Update I	Relative to S	SJ 2	
·	FY 2013	FY 2014	FY 2015	Total
Individual Income Tax	\$26.3	\$13.4	\$16.4	\$56.1
Property Tax	-	-	-	-
Corporation License Tax	1.5	2.4	3.3	7.3
Vehicle Taxes & Fees	0.0	0.1	0.1	0.3
Oil & Natural Gas Tax	(4.6)	(2.4)	-	(7.0)
Insurance Tax	(0.2)	(0.2)	(0.2)	(0.5)
Video Gaming Tax	-	(0.0)	(0.0)	(0.0)
Remaining Sources	(3.6)	(1.2)	(1.0)	(5.9)
General Fund Total	\$19.4	\$12.2	\$18.7	\$50.2
Guarantee Account	(2.6)	(8.3)	(7.4)	(18.3)
Total General Fund & Guarantee	\$16.8	\$3.9	\$11.2	\$31.9

# **YEAR-TO-DATE COLLECTIONS**

FY 2013 general fund revenues through the end of March are \$103.4 million or 8.5% ahead of FY 2012 revenues through the same period; the increase is above the forecast growth of 6.6% contained in SJ 2.

	Gene		nue Monitorir Millions)	ng Report			
	Actual	SJ2 Estimate	SJ2 Estimate	3/31/2012	3/31/2013	YTD	YTD
Revenue Source	FY 2012	FY 2013	% Change	FY 2012	FY 2013	Difference	% Change
Largest Seven Sources							
Individual Income Tax	\$898.851	\$983.953	9.5%	\$680.207	\$749.634	\$69.426	10.2%
Property Tax	236.662	241.741	2.1%	133.002	138.633	\$5.631	4.2%
Corporation Tax	127.771	150.658	17.9%	82.178	117.711	\$35.533	43.2%
Vehicle Taxes & Fees	99.954	100.833	0.9%	65.958	64.899	(\$1.059)	-1.6%
Oil Severance Tax	97.560	98.750	1.2%	25.508	23.736	(1.771)	-6.9%
Insurance Tax	58.951	59.932	1.7%	27.854	28.830	\$0.975	3.5%
Video Gaming Tax	53.824	57.706	7.2%	25.191	28.292	\$3.101	12.3%
Other Business Taxes							
Drivers License Fee	4.369	3.867	-11.5%	3.032	3.207	0.176	5.8%
Estate Tax	0.060	0.000	-100.0%	0.058	0.001	(0.058)	-99.0%
Investment Licenses	6.961	7.210	3.6%	6.206	6.393	0.187	3.0%
Lodging Facilities Sales Tax	15.606	17.314	10.9%	9.156	9.831	0.676	7.4%
Public Contractor's Tax	(3.042)	1.140	-137.5%	(2.075)	0.037	2.112	-101.8%
Railroad Car Tax	2.273	2.157	-5.1%	1.790	1.667	(0.122)	-6.8%
Rental Car Sales Tax	3.420	3.539	3.5%	2.129	2.175	0.046	2.2%
Retail Telecom Excise Tax	21.459	22.606	5.3%	10.797	10.509	(0.288)	-2.7%
Other Natural Resource Taxes						. ,	
Coal Severance Tax	12.350	12.864	4.2%	7.450	7.674	0,224	3.0%
Electrical Energy Tax	4.481	4.442	-0.9%	2.483	2.404	(0.078)	-3.2%
Metal Mines Tax	10.010	10.904	8.9%	1.088	3.222	2.134	196.2%
U.S. Mineral Royalties	31.057	36.989	19.1%	16.928	18.236	1.309	7.7%
Wholesale Energy Trans Tax	3.427	4.038	17.8%	1.898	1.862	(0.035)	-1.9%
Other Interest Earnings						<b>,</b> ,	
Coal Trust Interest Earnings	25.840	24.451	-5.4%	15.578	14.818	(0.760)	-4.9%
TCA Interest Earnings	2.654	2.779	4.7%	1.735	1.734	(0.000)	0.0%
Other Consumption Taxes						(=====,	
Beer Tax	2.956	3.052	3.2%	2.002	2.018	0.016	0.8%
Cigarette Tax	31.483	30.991	-1.6%	22.466	22.375	(0.091)	-0.4%
Liquor Excise Tax	17.037	18.206	6.9%	11.312	11.997	0.685	6.1%
Liquor Profits	9.500	10.604	11.6%	-	-	-	0.170
Lottery Profits	13.061	14.477	10.8%	5.822	7.142	1.319	22.7%
Tobacco Tax	5.709	5.821	2.0%	3.812	3.948	0.135	3.5%
Wine Tax	2.104	2.144	1.9%	1.434	1.482	0.048	3.3%
Other Sources		,	2.570	2	2, 102	0.0 10	3.370
All Other Revenue	47.258	32.595	-31.0%	36.250	19.190	(17.060)	-47.1%
Highway Patrol Fines	4.385	4.427	1.0%	2.891	2.587	(0.304)	-10.5%
Nursing Facilities Fee	5.077	4.876	-4.0%	2.542	2.529	(0.013)	-0.5%
Public Institution Reimbursement	14.562	16.332	12.2%	8.794	10.055	1.261	14.3%
Tobacco Settlement	3.322	3.552	6.9%	-		-	17.5/0
Largest Seven Subtotal	\$1,573.574	\$1,693.573	7.6%	\$1,039.898	Ć1 151 72 <i>4</i>	¢111 02F	10.00/
Remaining Sources Subtotal	297.380	301.377	1.3%		\$1,151.734	\$111.835	10.8%
Memaning Jources Subtotal	237.300	301.3//	1.3%	175.576	167.094	(8.482)	-4.8%
Grand Total	\$1,870.954	\$1,994.950	6.6%	\$1,215.474	\$1,318.828	\$103.353	8.5%
	7-,0,0,0,04	Y±,JJ7.JJ0	0.076	71,417.714	71,710.020	7103.333	0.37

#### **Individual Income Tax**

Individual income tax collections are \$69.4 million or 10.2% above last year. The estimate contained in SJ 2 forecasts a FY 2013 growth of 9.5%.

As with the March update, the April individual income tax model output shown below contains a FY 2013 adjustment of \$20 million to account for an expected change in taxpayer behavior. No reduction in FY 2014 and FY 2015 capital gains income is included since it is assumed the accelerated realization of gains would have otherwise been spread over several years in the future. Because no reduction is included for FY 2014 and FY 2015, there may be a small downside risk to the estimate in those years.

	SJ 2	Feb 25	Mar 15	Apr 15		YTD	SJ 2	Apr 15
	Official	Model	Model	Model	\$	Revenue	Estimated	Model
FY	Estimates	Output	Output	Output	Difference	Growth	Growth	Growth
2012	\$898.9	\$898.9	\$898.9	\$898.9	·			
2013	984.0	1,010.7	1,010.0	1,010.3	\$26.3	10.2%	9.5%	12.4%
2014	1,039.2	1,052.1	1,049.6	1,052.6	13.4		5.6%	4.2%
2015	1,104.9	1,121.0	1,118.4	1,121.3	16.4		6.3%	6.5%
3-YR	\$3,128.0	\$3,183.9	\$3,178.1	\$3,184.1	\$56.1			
3-1K	33,128.0	33,103.3	75,176.1	73,104.1	<del>-</del>			

The detailed collection information for individual income tax is shown below. Withholding tax is continuing a strong growth at 7.6% above last year's collections and estimated payments continue to show double-digit growth. The \$20 million adjustment for response to federal tax uncertainty will be accounted for in estimated and current year payments.

	Individua	al Income Tax		
	YTD FY 2013	YTD FY 2012	Difference	% Difference
Withholding	\$563.6	\$523.6	\$40.0	7.6%
Estimated Payments	157.6	124.1	33.5	27.0%
Current Year Payments	31.6	31.2	0.4	1.3%
Audit, P&I, Amended	19.8	18.6	1.2	6.4%
Refunds	(163.5)	(153.3)	(10.2)	6.6%
Refund Accrual Reversal	124.8	121.9	2.9	2.4%
Partnership Income Tax	7.2	4.7	2.5	52.7%
Mineral Royalties	8.5	9.4	(0.9)	-9.5%
Total	\$749.6	\$680.2	\$69.4	10.2%

# **Property Tax**

The property tax estimate is based on the taxable value data for tax year 2012 (FY 2013) obtained from the Department of Revenue, which suggest FY 2013 growth will be close to the estimate of 2.1% contained in SJ 2. The property tax estimate does not use IHS data, so there is no change in the model output.

	SJ 2	Feb 25	Mar 15	Apr 15		YTD	SJ 2	Apr 15
	Official	Model	Model	Model	\$	Revenue	Estimated	Model
FY	Estimates	Output	Output	Output	Difference	Growth	Growth	Growth
2012	\$236.7	\$236.7	\$236.7	\$236.7				
2013	241.7	241.7	241.7	241.7	\$0.0	4.2%	2.1%	2.1%
2014	246.6	246.6	246.6	246.6	-		2.0%	2.0%
2015	254.7	254.7	254.7	254.7	(0.0)		3.3%	3.3%
3-YR	\$743.0	\$743.0	\$743.0	\$743.0	(\$0.0)			

### **Corporation License Tax**

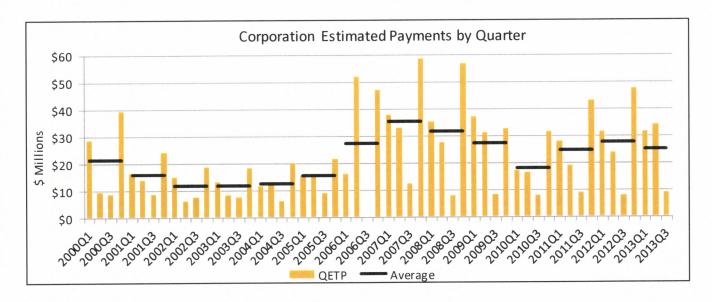
Corporation license tax collections are \$35.5 million or 43.2% above last year primarily due to an increase in estimated payments and a reduction in refunds. The estimate contained in SJ 2 forecasts a FY 2013 growth of 17.9%.

Refunds are unusually low, and if this pattern continues, total collections may be even higher than anticipated. Based on historical collection averages, there is not a compelling case to change the refund estimate; however, there are likely more upside risks than downside risks to the overall estimate.

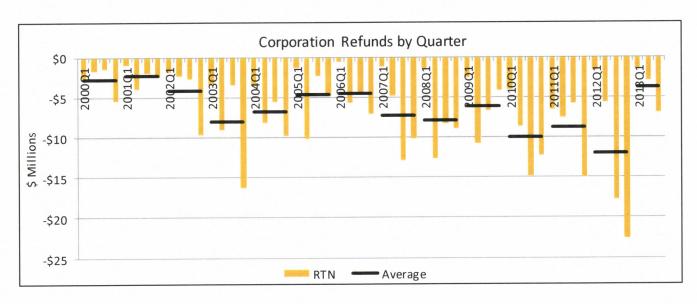
	SJ 2	Feb 25	Mar 15	Apr 15		YTD	SJ 2	Apr 15
	Official	Model	Model	Model	\$	Revenue	Estimated	Model
FY	Estimates	Output	Output	Output	Difference	Growth	Growth	Growth
2012	\$127.8	\$127.8	\$127.8	\$127.8				
2013	150.7	153.8	151.9	152.2	\$1.5	43.2%	17.9%	19.1%
2014	154.1	157.4	156.2	156.5	2.4		2.3%	2.9%
2015	155.0	157.7	157.5	158.4	3.3		0.6%	1.2%
3-YR	\$459.8	\$468.9	\$465.6	\$467.1	\$7.3			

	Corporati	on License Tax		
	YTD FY 2013	YTD FY 2012	Difference	% Difference
Corporation Tax	\$27.7	\$13.7	\$14.0	102.5%
Estimated Payments	74.7	63.4	11.4	18.0%
Refunds	(11.4)	(25.2)	13.8	-54.8%
Refund Accrual Reversal	12.8	9.0	3.7	41.3%
Audit, P&I, Amended	13.9	21.3	(7.4)	-34.7%
Total	\$117.7	\$82.2	\$35.5	43.2%

The best indicator for corporation license tax collections is estimated payments. As shown in the figure below, estimated payments are volatile from year-to-year and quarter-to-quarter. Since the low point during FY 2010, estimated payments have (on average) been increasing. FY 2013 estimated payments through the second quarter at the end of December show a continuation of this trend.



Refunds through the first two quarters of the fiscal year are typically not a reliable indicator of total refunds for the year, as shown in the chart below. According to the Department of Revenue, in FY 2012, there were five large refunds totaling nearly \$11 million due to changes in filing methods, factor changes, and net operating loss carrybacks.



#### **Vehicle Tax & Fees**

Vehicle fees and taxes are currently below last year's amount by \$1.1 million or 1.6%. The estimate contained in SJ 2 forecasts a growth of 0.9% in FY 2013.

The IHS April forecast did not change significantly in its estimate of Montana vehicle stock; therefore the revenue is consistent with the previous update.

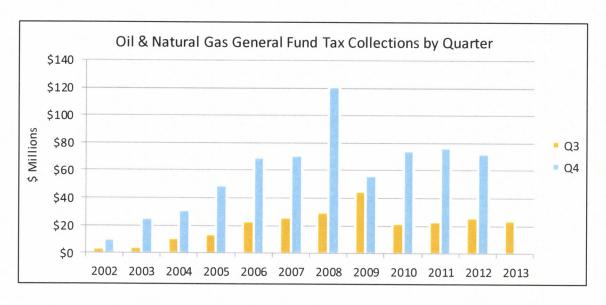
	SJ 2	Feb 25	Mar 15	Apr 15		YTD	SJ 2	Apr 15
	Official	Model	Model	Model	\$	Revenue	Estimated	Model
FY	Estimates	Output	Output	Output	Difference	Growth	Growth	Growth
2012	\$100.0	\$100.0	\$100.0	\$100.0				
2013	100.8	100.9	100.8	100.8	\$0.0	-1.6%	0.9%	0.9%
2014	101.4	101.5	101.5	101.5	0.1		0.5%	0.7%
2015	102.1	102.2	102.2	102.2	0.1		0.7%	0.7%
3-YR	\$304.3	\$304.5	\$304.5	\$304.6	\$0.3			
		10.0						

#### Oil & Natural Gas Production Tax

Oil and natural gas production tax collections are \$1.8 million or 6.9% below last year as of the end of January. These revenue collections represent the taxes on production from the first quarter of FY 2013. The estimate contained in SJ 2 forecasts a FY 2013 growth of 1.2%. The April model forecasts a decline of 3.5% in FY 2013, followed by modest growth in FY 2014 and FY 2015.

	SJ 2	Feb 25	Mar 15	Apr 15		YTD	SJ 2	Apr 15
	Official	Model	Model	Model	\$	Revenue	Estimated	Model
FY	Estimates	Output	Output	Output	Difference	Growth	Growth	Growth
2012	\$97.6	\$97.6	\$97.6	\$97.6				
2013	98.8	95.8	94.4	94.2	(\$4.6)	-6.9%	1.2%	-3.5%
2014	99.3	102.3	97.5	96.9	(2.4)		0.6%	2.9%
2015	97.4	99.6	97.7	97.4			-1.9%	0.5%
3-YR	\$295.5	\$297.7	\$289.6	\$288.5	(\$7.0)			

Due to the time lag between production and when the taxes are distributed to the general fund, it can be difficult to draw conclusions from year-to-date activity. The chart below shows fiscal year collections by quarter. The first quarter of production taxes are remitted to the general fund in the third quarter, while the production taxes for the three remaining quarters are collected (or accrued, as in the case of the fourth quarter of production) in the last quarter of the fiscal year.

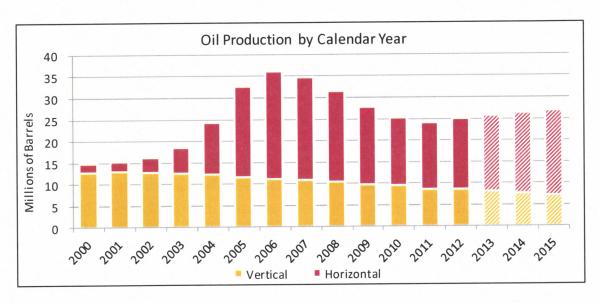


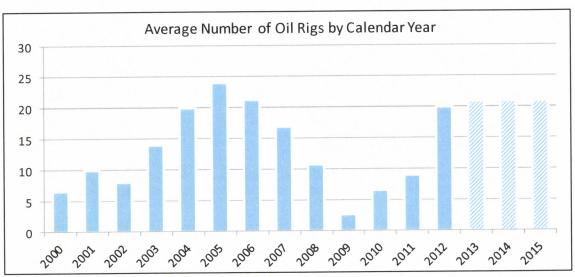
#### Oil Production

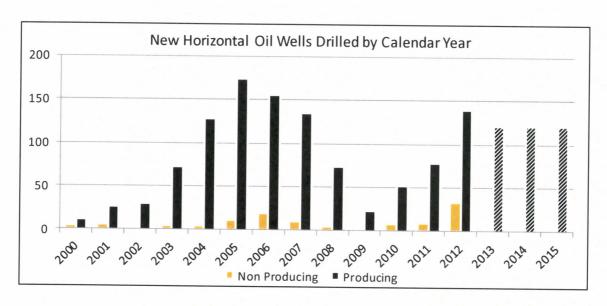
The slow growth in overall oil production is attributable to the continuing decline of production from vertical wells; horizontal production appears to be growing again after five consecutive years of decline following the 2006 peak.

	Forecast Oil Production by Month of Estimate									
(in Millions of Barrels)										
CY	January	February	March	April	Apr-Jan					
2013	25.7	28.0	27.3	27.3	1.6					
2014	26.3	28.4	27.9	27.9	1.6					
2015	26.8	28.7	28.4	28.3	1.5					

The oil and natural gas production tax estimate contained SJ 2 was based on January price data, but the most recent production data came from June 2012. The April estimated production shown in the table above is based data through February 2013. The charts below illustrate the historical trends; forecast values are based on SJ 2.

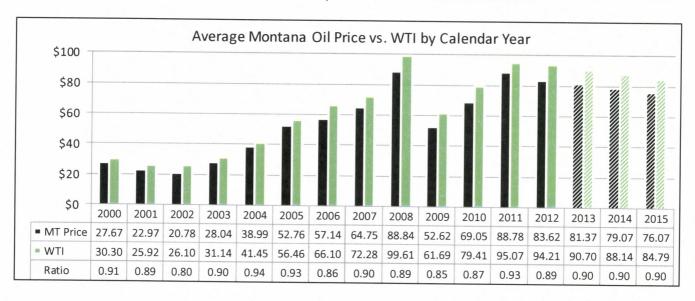






### Oil Price

The table in the chart below shows the ratio between the average Montana oil price and the West Texas Intermediate (WTI) price. The forecast oil price is that contained in SJ 2.



#### **Insurance Tax**

Insurance tax collections are up \$1.0 million or 3.5% over last year. The estimate contained in SJ 2 forecasts a growth of 1.7% in FY 2013.

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	SJ 2	Feb 25	Mar 15	Apr 15		YTD	SJ 2	Apr 15
	Official	Model	Model	Model	\$	Revenue	Estimated	Model
FY	Estimates	Output	Output	Output	Difference	Growth	Growth	Growth
2012	\$59.0	\$59.0	\$59.0	\$59.0				
2013	59.9	59.7	59.7	59.8	(\$0.2)	3.5%	1.7%	1.4%
2014	52.0	51.8	51.8	51.8	(0.2)		-13.2%	-13.3%
2015	54.1	53.9	53.9	53.9	(0.2)		3.9%	4.0%
3-YR	\$166.0	\$165.5	\$165.4	\$165.5	(\$0.5)			1

# **Video Gambling Tax**

Video gaming tax collections are up \$3.1 million or 12.3% over last year, primarily due to the addition of video line games approved by the 62<sup>nd</sup> Legislature. The positive impact of this legislation is expected to continue with some modest improvement in overall machine play. The estimate contained in SJ 2 forecasts a growth of 7.2% in FY 2013.

The IHS April forecast did not change Montana per capita personal income significantly; therefore the model output remained the same.

<del>- 1</del>		F-1- 25	N40 1 1 5			YTD	SJ 2	Apr 15
	SJ 2	Feb 25	Mar 15	Apr 15				•
	Official	Model	Model	Model	\$	Revenue	Estimated	Model
FY	Estimates	Output	Output	Output	Difference	Growth	Growth	Growth
2012	\$53.8	\$53.8	\$53.8	\$53.8				
2013	57.7	57.7	57.7	57.7	\$0.0	12.3%	7.2%	7.2%
2014	59.9	59.9	59.9	59.9	(0.0)		3.9%	3.8%
2015	62.1	62.1	62.1	62.1	(0.0)		3.7%	3.7%
3-YR	\$179.8	\$179.8	\$179.8	\$179.7	(\$0.0)			
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# **Remaining Sources**

Revenue from the remaining sources was 4.8% below FY 2012, primarily due to timing in all other revenue. All other revenue collections are \$8.5 million below last year at this time due to fund transfers in HB 604 and revised laws regarding stale-dated warrants in SB 335, both passed by the 62<sup>nd</sup> Legislature. In FY 2012, \$10.9 million was transferred to the general fund per HB 604, and the unusually high \$3.2 million in abandoned property transfer reflected the changes due to SB 335.

The U.S. Department of Interior is cutting federal mineral payments to 35 states by about \$110 million this fiscal year as part of the automatic federal spending cuts. Montana's share of the reduction is \$2.5 million, according to figures released by the Interior Department's Office of Natural Resources Revenue. The reduction is assumed to apply only to FY 2013, without any recoup in payments in subsequent years.

The IHS April forecast resulted is small changes—both positive and negative—to most of the remaining sources. These changes, coupled with the revised U.S. Mineral Royalties estimate for FY 2013, resulted in small changes to the model output, as shown below.

	SJ 2	Feb 25	Mar 15	Apr 15		YTD	SJ 2	Apr 15
	Official	Model	Model	Model	\$	Revenue	Estimated	Model
FY	Estimates	Output	Output	Output	Difference	Growth	Growth	Growth
2012	\$297.4	\$297.4	\$297.4	\$297.4				
2013	301.4	301.2	301.4	297.7	(\$3.6)	-4.8%	1.3%	0.1%
2014	303.7	303.3	303.4	302.5	(1.2)		0.8%	1.6%
2015	307.2	306.5	306.6	306.1	(1.0)		1.1%	1.2%
3-YR	\$912.2	\$911.0	\$911.4	\$906.4	(\$5.9)			

#### **Guarantee Account**

The guarantee account is used to pay BASE aid to school districts. It is the first source of funding for BASE aid and is statutorily appropriated. The amount of BASE aid not paid for by the guarantee account is paid for from the general fund. Revenue in the guarantee account includes distributable interest from the investments at the Board of Investments, income from state trust lands, and excess oil and gas revenue from school districts.

	SJ 2	Feb 25	Mar 15	Apr 15		SJ 2	Apr 15
	Official	Model	Model	Model	\$	Estimated	Model
FY	Estimates	Output	Output	Output	Difference	Growth	Growth
2012	\$102.4	\$102.4	\$102.4	\$102.4			
2013	68.1	65.5	65.5	65.5	(\$2.6)	-33.5%	-36.1%
2014	65.7	57.5	57.4	57.4	(8.3)	-3.5%	-12.3%
2015	62.0	54.7	54.6	54.6	(7.4)	-5.6%	-5.0%
3-YR	\$195.8	\$177.6	\$177.5	\$177.5	(\$18.3)		

## **DATA SOURCES**

- IHS national & Montana economic forecasts
- IHS reports and analysis
- SABHRS month-end data through March
- Board of Oil & Gas production data
- DOR selected tax return data